



SPECIAL REVIEW OF THE
CITY OF BELLFLOWER, MISSOURI

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-41
June 5, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

June 2000

The following problems were discovered as a result of a special review conducted by our office of the City of Bellflower, Missouri in response to the request of the Governor.

From January 1998 through February 2000, more than \$11,000 was misappropriated from the city. Some water, sewer and trash receipts, water meter and sewer deposits, and various miscellaneous receipts which had been turned over to the city treasurer, were not deposited in the bank accounts. Amounts shown on the monthly financial reports reflected more receipts than were deposited, and a larger cash balance than was in the bank account. In addition, various bank records and copies of deposit slips were missing. This helped to conceal the cash shortage.

Nancy Fischer, who served as city treasurer since January 1998, resigned in February 2000.

The city clerk collects most city receipts, except for court monies, and transmits them to the city treasurer. A receipt slip is prepared by the city clerk and signed by the city treasurer which documents the amount of cash and checks turned over and the type of collections (utility payments, property taxes, water meter and sewer deposits, etc). The city treasurer then prepares a deposit slip and deposits the monies into the various bank accounts.

From January 1, 1998, through February 29, 2000, receipt slips showed monies totaling \$11,187 were turned over to the city treasurer, but were not deposited.

The former city treasurer has found and/or repaid \$1,142 of these undeposited monies to the Missouri State Highway Patrol during the course of its investigation. These monies are currently held by the Missouri State Highway Patrol. In addition, the city found a money order for \$147 at city hall which has subsequently been deposited. As a result, a net amount of \$9,898 is still missing.

Monthly financial reports prepared by the treasurer reflected more receipts than were deposited and a larger cash balance than was in the bank account. In addition, various bank records and copies of deposit slips are missing. This helped to conceal the cash shortage.

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YELLOW SHEET

The shortage was undetected for a length of time due to several internal controls weaknesses, including inadequate segregation of duties and lack of independent review, as discussed later in this report.

Information gathered during our review has been turned over to the Missouri State Highway Patrol.

Accounting duties were not adequately segregated. The city treasurer made deposits, prepared and signed the checks, reconciled the bank statements and prepared the monthly reports. There was no reconciliation between the monies turned over to the treasurer and the amounts deposited, or warrants approved by the board and the actual payments. In addition, there was not an independent review of the bank reconciliations, or monthly financial reports.

SPECIAL REVIEW OF THE
CITY OF BELLFLOWER, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Mel Carnahan
Governor of Missouri
and
The Honorable Mayor
and
Members of the Board of Aldermen
City of Bellflower
Bellflower, MO 63333

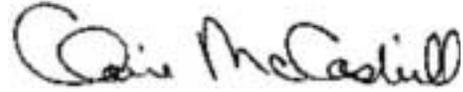
By his authority under Section 26.060, RSMo, Governor Carnahan requested the State Auditor's Office perform a review of the City of Bellflower, Missouri. In response to this request, the Missouri State Auditor's Office conducted a review of the city. The objectives of this review were to:

1. Investigate suspected irregularities in the handling and depositing of various city receipts.
2. Determine the amount of funds misappropriated from the city.
3. Review and evaluate certain controls and procedures regarding collection of and accounting for various city receipts.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard we reviewed the financial records and procedures of the city and interviewed personnel of the city.

Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying Management Advisory Report presents our findings and recommendations arising from our review of the city of Bellflower.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

May 12, 2000 (fieldwork completion date)

The following auditor participated in the preparation of this report:

Director of Audits: Karen Laves, CPA

EXECUTIVE SUMMARY

SPECIAL REVIEW OF THE
CITY OF BELLFLOWER, MISSOURI
EXECUTIVE SUMMARY

From January 1998 through February 2000, more than \$11,000 was misappropriated from the city. Some water, sewer and trash receipts, water meter and sewer deposits, and various miscellaneous receipts which had been turned over to the city Treasurer, were not deposited in the bank accounts. Amounts shown on the monthly financial reports reflected more receipts than were deposited, and a larger cash balance than was in the bank account. In addition, various bank records and copies of deposit slips were missing. This helped to conceal the cash shortage.

Nancy Fischer, who served as city Treasurer since January 1998, resigned in February 2000.

MANAGEMENT ADVISORY REPORT

SPECIAL REVIEW OF THE
CITY OF BELLFLOWER, MISSOURI
MANAGEMENT ADVISORY REPORT

The Missouri State Highway Patrol contacted the State Auditor's Office on February 28, 2000, concerning possible irregularities regarding city financial records. Based on this contact, the State Auditor's Office performed a preliminary review of certain records of the city of Bellflower. Based on the results of this preliminary review, Governor Mel Carnahan, by his authority under Section 26.060, RSMo, requested in March 2000 the State Auditor's Office perform a special review of the city of Bellflower, Missouri. Following are our comments regarding the city's policies and procedures.

1.	Missing Cash Receipts
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The city clerk collects most city receipts, except for court monies, and transmits them to the city treasurer. A receipt slip is prepared by the city clerk and signed by the city treasurer which documents the amount of cash and checks turned over and the type of collections (utility payments, property taxes, water meter and sewer deposits, etc). The city treasurer then prepares a deposit slip and deposits the monies into the various bank accounts.

From January 1, 1998, through February 29, 2000, receipt slips showed monies totaling \$11,187 were turned over to the city treasurer, but were not deposited as shown below:

Year ended December 31, 1998	\$5,470
Year ended December 31, 1999	5,207
Two months ended February 29, 2000	<u>510</u>
Total Undeposited Monies	<u>\$11,187</u>

The former city treasurer has found and/or repaid \$1,142 of these undeposited monies to the Missouri State Highway Patrol during the course of its investigation. These monies are currently held by the Missouri State Highway Patrol. In addition, the city found a money order for \$147 at city hall which has subsequently been deposited. As a result, a net amount of \$9,898 is still missing.

Monthly financial reports prepared by the treasurer reflected more receipts than were deposited and a larger cash balance than was in the bank account. In addition, various bank records and copies of deposit slips are missing. This helped to conceal the cash shortage.

The shortage was undetected for a length of time due to several internal control weaknesses, including inadequate segregation of duties and lack of independent review, as discussed later in this report.

Information gathered during our review has been turned over to the Missouri State Highway Patrol.

WE RECOMMEND the city continue to work with law enforcement officials regarding any criminal prosecution and to obtain restitution of the missing funds.

AUDITEE'S RESPONSE:

We initially found irregularities in several funds and contacted the Missouri State Highway Patrol. We will continue to work with law enforcement until the matter is fully resolved.

2. Accounting Controls and Procedures
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- A. Accounting duties were not adequately segregated. The city treasurer made deposits, prepared and signed the checks, reconciled the bank statements and prepared the monthly reports. There was no reconciliation between the monies turned over to the treasurer and the amounts deposited, or warrants approved by the board and the actual payments. In addition, there was not an independent review of the bank reconciliations, or monthly financial reports.

To ensure monies are properly recorded and handled, the duties of depositing and disbursing monies need to be segregated from reconciling the accounts and preparing monthly financial reports. At a minimum, there should be a reconciliation of receipts to deposits, and approved warrants to checks, as well as an independent review of bank reconciliations and monthly reports.

- B. The city maintains twelve bank accounts. Except for separate accounts for the Water and Sewer Bond Reserve accounts, it appears many accounts could be consolidated. In addition to the time required to reconcile this number of accounts, an increased number of checks are written and deposits are made. Currently, a large number of checks are written to transfer monies and allocate expenditures among the various funds. Depositing procedures are also complicated when a single check is written for payment into various funds.

Consolidating bank accounts would help simplify the city's records and reduce the number of accounts that must be monitored and controlled. Accordingly, the time required to reconcile accounts, write checks and make deposits would be reduced.

- C. Financial statements were not published or submitted to the State Auditor's office, as required by state law, for 1998 or 1999. Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semi-annual financial statements. Section 105.145 RSMo 1994, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's office.